**Appendix**

# HERITAGE AND STABILISATION FUND (HSF)

## QUARTERLY INVESTMENT REPORT

## APRIL TO JUNE 2020

**TABLE OF CONTENTS**



[1] This section includes economic data available as at July 30, 2020.

## EXECUTIVE SUMMARY

- Early in the second quarter of 2020, the slowing rate of transmission of Covid-19 enticed most countries to gradually ease lockdown measures. This resulted in a pick-up of economic activities, which boosted investors' confidence that the recovery from Covid-19 was likely to be V-shaped.

- However, the easing of the measures led to a resurgence in the rate of transmission of the virus and, by the end of the quarter, any hope of a swift recovery was dashed. Once again, economic activity slowed as governments reversed or reduced the speed of re-opening their economies. In addition, the continued downside risk posed by Covid-19 and rising geo-political tensions between the US and China raised market expectations of a much longer than expected global recession.

- During the quarter, global central banks responded to the risks to growth by supplying liquidity to financial markets through asset purchases and keeping monetary rates low. The monetary stimulus complemented governments' fiscal measures of lending to firms, direct payments to households and job retention programmes helped to ease risk concerns in credit markets.

- Global equities and fixed income markets rebounded sharply during the quarter, recovering most of the previous quarter's losses. These market gains occurred against a backdrop of record low corporate earnings and economic numbers and suggested that valuations have split away from the underlying fundamentals. The surge in the market valuations during the period primarily reflected the considerable monetary and fiscal measures, which provided investors with a favourable and predictable liquidity environment. Also, the enormous impetus and coordinated efforts between governments and the private sector, both in the United States and Europe, on developing a vaccine for Covid-19 boosted investors' confidence, which further helped to push financial markets higher during quarter.

- The market gains were not symmetric across sectors and geographical regions. Global equities and credit markets outperformed the government treasury sector, as investors took advantage of the low rates and ample market liquidity to seek higher expected returns in stocks, spread products and corporates. The higher market weighting to consumer discretionary and, in particular, technology stocks helped the United States' equity markets outperformed their global peers. Technology and consumer discretionary firms fared a lot better than financials and other sectors in the Covid-19 environment during the quarter.

- In the quarter ended June 2020, the **HSF Investment Portfolio returned 8.62 per cent** with all investment mandates delivering positive returns (see Table 1). The Fund's US Core Domestic and Non-US Core International equity mandates were the two best performing portfolios during the period. Both portfolios recovered from the previous quarter's heavy losses to post healthy gains of 21.59 and 15.86 per cent, respectively. The Fund's fixed income mandates continue to provide steady returns, largely in line with previous quarters' performance.

- When compare to its SAA benchmark, which returned 7.57 per cent, the HSF Investment Portfolio outperformed by 105 basis points (see Table 2). Of this figure, the US Core Domestic Fixed Income mandate contributed 97 basis points to the benchmark outperformance. The portfolio's greater allocation to credit products relative to the benchmark proved to be beneficial as market support measures eased credit risk concerns and boosted investors' demand for risky assets during the quarter. The Non-US Core International Equity mandate was the only portfolio that detracted from the HSF relative performance, underperforming its benchmark by 21 basis points. The HSF held, on average, an underweight allocation to non-US international equity markets, a sector which delivered positive return during the quarter.

- As at the end of June 2020, the total **net asset value of the HSF** was **US$5,817.1 million**, a decline of approximately US$108.2 million from the previous quarter's closing value of US$5,925.3 million. The market value of the Fund's assets increased by roughly US$493.4 million during the quarter. This quarterly gain was offset by a total withdrawal of US$600 million from the Fund under Section 15A (1)(b) of the amended HSF Act.

- **Update**. At the time of writing, a further US$300 million was withdrawn from the HSF under Section 15A (1)(b) on August 25, 2020. This brought the total withdrawals under this section of the Act to US$900 million for the fiscal year 2019/2020, within the maximum withdrawal limit of US$1.5 billion stated under Section 15A (2).

**Table 1**
**Absolute Quarterly Returns**
**For the period April – June 2020**
**/per cent/**

| | Absolute Return HSF | Absolute Return Benchmark |
|---|---|---|
| **Composite Portfolio** | **8.62** | **7.57** |
| US Short Duration Fixed Income | 0.63 | 0.29 |
| US Core Domestic Fixed Income | 5.09 | 2.90 |
| US Core Domestic Equity | 21.59 | 21.74 |
| Non-US Core International Equity | 15.86 | 15.49 |

**Table 2**
**Contributions to Quarterly Returns**
**For the period April - June 2020**
**/per cent/**

| | 3 Months Weighted Return as at 30-June-2020 | |
|---|---|---|
| | **HSF** | **Benchmark** |
| **Composite Portfolio** | **8.62** | **7.57** |
| US Short Duration Fixed Income | 0.14 | 0.07 |
| US Core Domestic Fixed Income | 2.12 | 1.15 |
| US Core Domestic Equity | 3.81 | 3.64 |
| Non-US Core International Equity | 2.40 | 2.61 |

NB: Differences in totals are due to rounding.

## SECTION 1 – INTERNATIONAL ECONOMIC ENVIRONMENT

The global economy contracted during the second quarter of 2020 due largely to the shutdown measures implemented in many countries to contain the spread of the Covid-19 virus. The US Commerce Department's first reading indicated that the US GDP contracted by roughly 9.5 per cent, a record low, in the second quarter of the year as consumption business investments and global trade all fell. The drop would have been even more severe if not for the government's trillions of dollars fiscal support to households and businesses. Early data for Europe indicated that the region's largest economy, Germany, shrank 10.1 per cent in the second quarter compared to the previous quarter, the largest drop in 50 years.

In April, the Markit Composite Purchasing Managers Index (PMI) reached record lows in US, Europe and Japan as the closure of non-essential businesses and restrictions on social activities crippled growth and resulted in a precipitous decline in economic activity. Encouraging signs of a global economic recovery surfaced in May as the slowing rate of transmission of Covid-19 allowed many governments to re-open their economies. As a result, manufacturing and services output in the US and Europe surged in the month of May.

However, the resurgence in the rate of transmission of the virus in June slowed economic recovery as governments reversed or reduced the pace of re-opening. At the end of June, US Markit Composite PMI recovered to 47.9 from April's record low of 27.0. Similar trends were seen in Europe. While Japan recovered at a more modest pace with the Nikkei/Markit Composite PMI rising to 40.8 in June from 25.8 in April. Despite the improvement, overall global economic conditions in the quarter were largely subdued.

The US unemployment rate peaked in April at 14.7 per cent but steadily improved over the quarter to 11.1 per cent in June as businesses resumed operations and started hiring. In comparison, Europe's labour market was somewhat more resilient over the period as governments' worker furlough schemes delayed job cuts in Europe. The jobless rate in the Euro area rose modestly to 7.8 per cent in June from 7.2 per cent at the end of the first quarter. While the United Kingdom (UK) unemployment rate held steady at 3.9 per cent from March to May.

As economies struggled with the impact of the global pandemic, developed central banks and governments provided supports to financial markets, households and firms during the quarter, acknowledging the ongoing downside risks to growth and stability from the health crisis. With monetary rates already at record lows, central banks focused on expanding their various asset purchase programmes and lending facilities in order to keep markets liquid. While governments attempted to cushion their economies from further deterioration and either increased fiscal stimulus or were in discussions to augment spending during the quarter.

## SECTION 2 – CAPITAL AND MONEY MARKET REVIEW

Investors' sentiment improved with the gradual resumption of activity, encouraging economic indicators and promising early phase drug trials. Nonetheless, the overwhelmingly positive mood was somewhat tempered by concerns around heightened trade tensions between the US and China, as well as the resurgence of the virus in a growing number of US states towards the end of June.

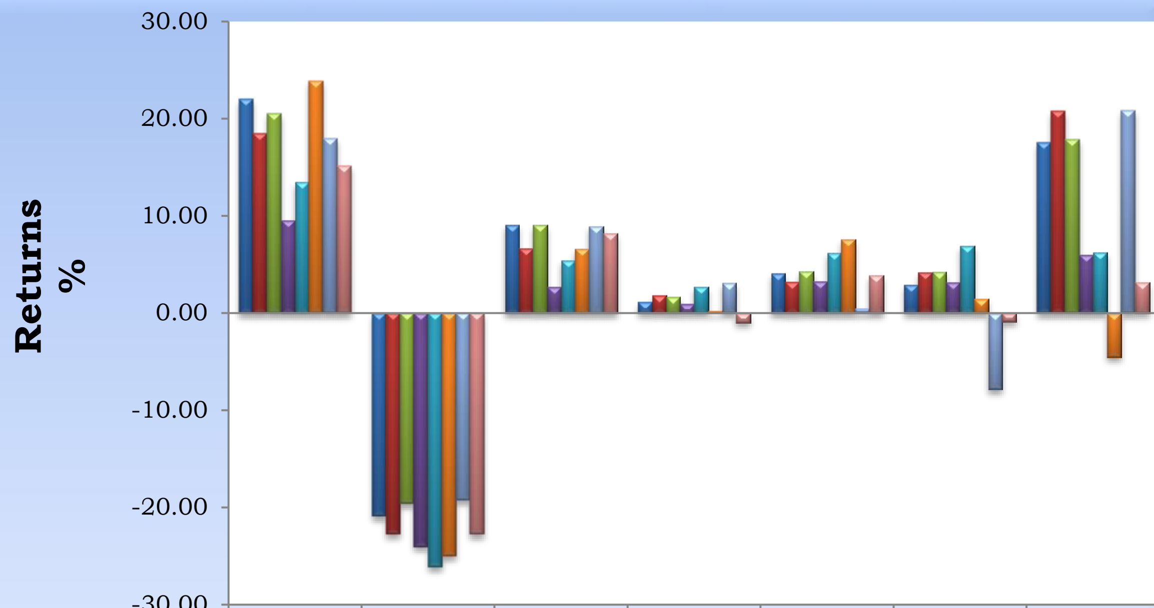
In the US, market volatility as measured by the Chicago Board Options Exchange Volatility Index (VIX) trended lower. The VIX ended the quarter at 30.43 points when compared to its intra-day high of 85.47 points in March. Similarly, the European measure of investor anxiety, the Euro Stoxx 50 Volatility Index (VSTOXX) also declined over the period to close the quarter at 31.72 points from 48.59 points at the end of the prior quarter.

The US Standard and Poor's (S&P) 500 index rose 20.54 per cent in the quarter, recovering the 19.60 per cent losses over the prior quarter (see Figure 1). Gains were broad based with all sectors delivering positive returns. However, Consumer Discretionary and Information Technology sectors performed the best, increasing 32.86 per cent and 30.53 per cent, respectively. While the Consumer Staples and Utilities sectors lagged, returning 8.12 per cent and 2.74 per cent, respectively.

Non-US developed markets, as represented by the MSCI EAFE index, rose 15.14 per cent in US dollar terms during the quarter (see Figure 1). The Japan's Nikkei 225 index and Germany's DAX 30 index gained 17.97 per cent and 23.90 per cent, respectively.

The UK's FTSE 100 index trailed the other broader markets, returning 9.57 per cent over the quarter.

**Figure 1**
**Total Returns on Selected Equity Indices**
**/Per cent/**

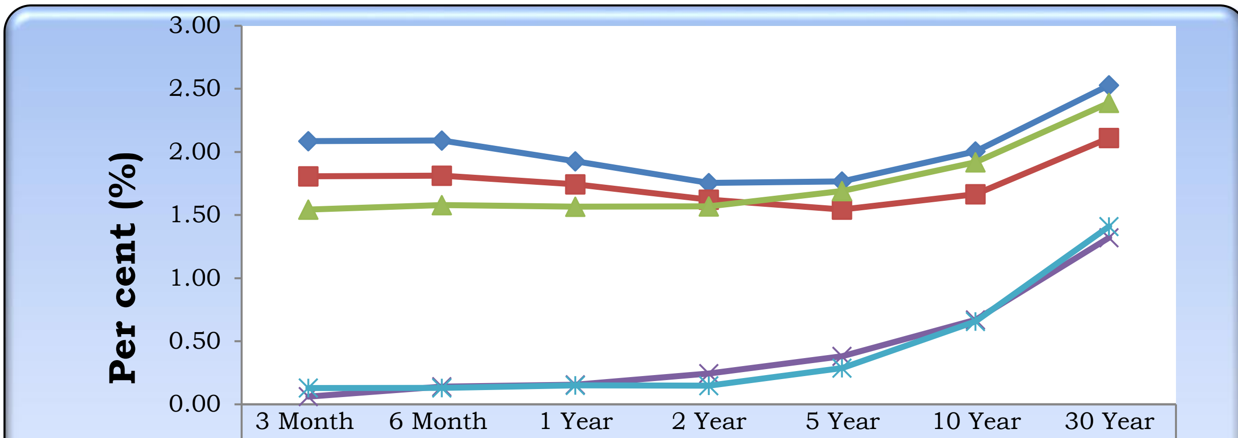



| | QTR Ended Jun-20 | QTR Ended Mar-20 | QTR Ended Dec-19 | QTR Ended Sep-19 | QTR Ended Jun-19 | FY 18/19 | FY 17/18 |
|---|---|---|---|---|---|---|---|
| Russell 3000 | 22.03 | -20.90 | 9.09 | 1.16 | 4.09 | 2.91 | 17.57 |
| Dow Jones | 18.51 | -22.73 | 6.67 | 1.83 | 3.21 | 4.21 | 20.76 |
| S&P 500 | 20.54 | -19.60 | 9.06 | 1.70 | 4.30 | 4.25 | 17.90 |
| FTSE 100 - UK | 9.57 | -24.05 | 2.70 | 0.93 | 3.28 | 3.18 | 6.00 |
| CAC 40 - France | 13.48 | -26.15 | 5.46 | 2.73 | 6.19 | 6.93 | 6.25 |
| DAX 30 - Germany | 23.90 | -25.01 | 6.61 | 0.24 | 7.57 | 1.48 | -4.54 |
| Nikkei 225 - Japan | 17.97 | -19.25 | 8.92 | 3.10 | 0.48 | -7.84 | 20.83 |
| MSCI EAFE | 15.14 | -22.76 | 8.21 | -1.00 | 3.90 | -0.87 | 3.16 |

Source: Bloomberg

In the US fixed income market, US Treasury yields were broadly flat to lower across the curve due, in part, to prolonged central bank easing (see figure 2). The 2-year yield fell by 9.7 basis points to 0.15 per cent while, the 10-year yield was relatively unchanged at 0.66 per cent.

**Figure 2**
**US Treasury Curve**
**/Per Cent/**



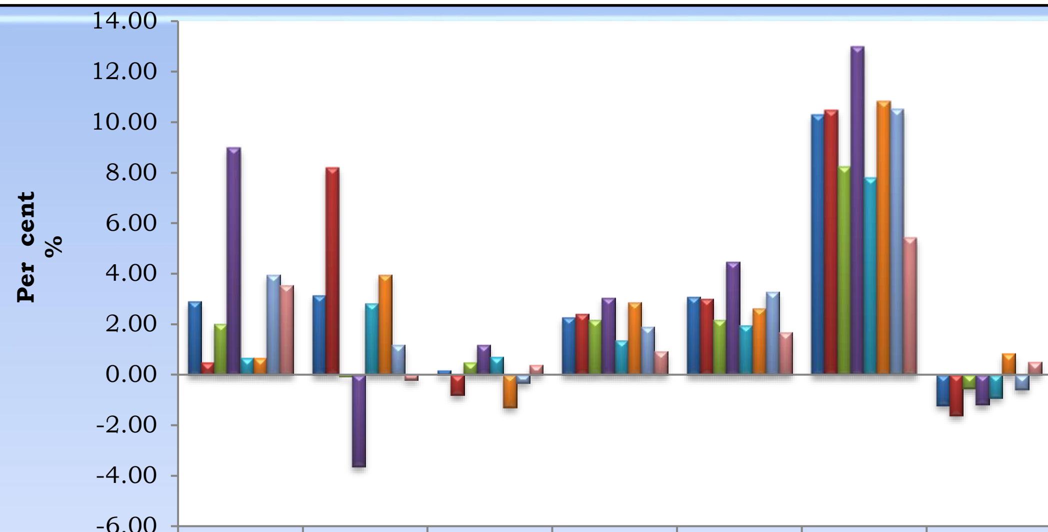

| | 3 Month | 6 Month | 1 Year | 2 Year | 5 Year | 10 Year | 30 Year |
|---|---|---|---|---|---|---|---|
| Jun-19 | 2.09 | 2.09 | 1.93 | 1.75 | 1.77 | 2.01 | 2.53 |
| Sep-19 | 1.81 | 1.81 | 1.74 | 1.62 | 1.54 | 1.66 | 2.11 |
| Dec-19 | 1.54 | 1.58 | 1.57 | 1.57 | 1.69 | 1.92 | 2.39 |
| Mar-20 | 0.06 | 0.14 | 0.15 | 0.25 | 0.38 | 0.67 | 1.32 |
| Jun-20 | 0.13 | 0.13 | 0.15 | 0.15 | 0.29 | 0.66 | 1.41 |

Source: Bloomberg

The broader US fixed income market, as represented by the Bloomberg Barclays US Aggregate Bond Index, earned 2.90 per cent in the second quarter of 2020. Credit markets recovered with the Fed's expanded policy support, which included a broader scope for its Municipal and Corporate Debt programmes. The US Corporate sub-sector returned 8.98 per cent, while the US CMBS sub-sector gained 3.95 per cent. In contrast, US treasuries underperformed the overall index returning 0.48 per cent (see Figure 3).

In currency markets, traditional safe haven currencies depreciated over the quarter as investors' sentiment improved. The US dollar as measured by the DXY index depreciated 1.67 per cent, while the Japanese Yen weakened 0.37 per cent against the US dollar. Brexit concerns detracted from the pound sterling and the currency lost 0.15 per cent over the period. In contrast, progress towards a unified fiscal package for the Euro area helped the euro currency strengthen 1.84 per cent against the US dollar during the quarter (see Figure 4).

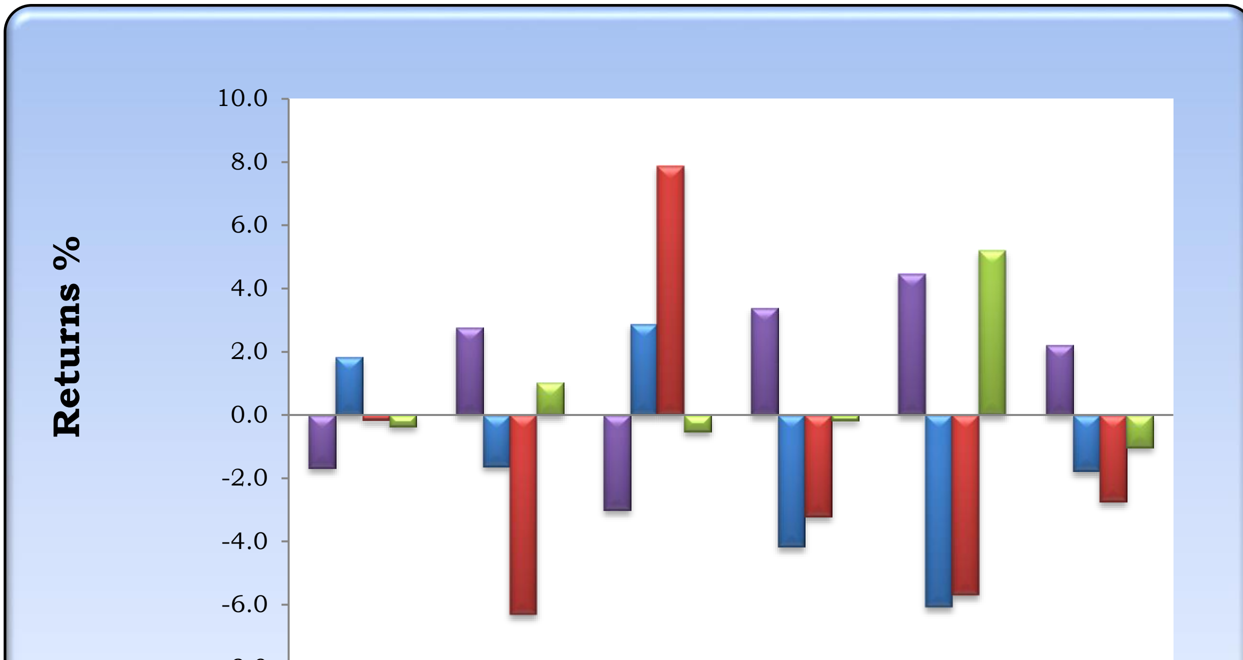
**Figure 3**
**Returns on Selected Fixed Income Indices**
**/Per Cent/**




| | QTR Ended Jun-20 | QTR Ended Mar-20 | QTR Ended Dec-19 | QTR Ended Sep-19 | QTR Ended Jun-19 | FY 18/19 | FY 17/18 |
|---|---|---|---|---|---|---|---|
| Barclays US Aggregate | 2.90 | 3.15 | 0.18 | 2.27 | 3.08 | 10.30 | -1.22 |
| US Treasury | 0.48 | 8.20 | -0.79 | 2.40 | 3.01 | 10.48 | -1.62 |
| Agencies | 2.02 | -0.07 | 0.49 | 2.17 | 2.17 | 8.24 | -0.54 |
| US Corporate | 8.98 | -3.63 | 1.18 | 3.05 | 4.48 | 13.00 | -1.19 |
| US MBS | 0.67 | 2.82 | 0.71 | 1.37 | 1.96 | 7.80 | -0.92 |
| G7 Bonds (Hedged) | 0.66 | 3.96 | -1.29 | 2.86 | 2.63 | 10.84 | 0.83 |
| US CMBS | 3.95 | 1.18 | -0.33 | 1.90 | 3.28 | 10.51 | -0.58 |
| US ABS | 3.54 | -0.21 | 0.39 | 0.92 | 1.67 | 5.42 | 0.51 |

Source: Bloomberg

**Figure 4**
**Foreign Exchange Returns for Major Currencies**
**vis-à-vis the US Dollar**
**/Per Cent/**




| | QTR Ended Jun-20 | QTR Ended Mar-20 | QTR Ended Dec-19 | QTR Ended Sep-19 | FY 18/19 | FY 17/18 |
|---|---|---|---|---|---|---|
| DXY CURNCY | -1.67 | 2.76 | -3.01 | 3.38 | 4.46 | 2.21 |
| EURUSD CURNCY | 1.84 | -1.62 | 2.88 | -4.17 | -6.08 | -1.78 |
| GBPUSD CURNCY | -0.15 | -6.31 | 7.88 | -3.21 | -5.69 | -2.74 |
| JPYUSD CURNCY | -0.37 | 1.02 | -0.52 | -0.17 | 5.20 | -1.02 |

Source: Bloomberg

## SECTION 3 – PORTFOLIO PERFORMANCE

### *Strategic Asset Allocation*

Table 3 reports the actual mandate weights of the HSF's Investment Portfolio relative to its approved SAA for the quarter ended June 2020 and the previous three (3) quarters.

During the period April to June 2020, changes in mandate weights were due to a combination of market value movements and withdrawals totalling US$600.0 million in accordance with Section 15A (1)(b) of the amended HSF Act. Altogether, these events resulted in an underweight allocation to fixed income and a corresponding overweight to equities as at the end of the quarter.

**Table 3**
**Portfolio Composition relative to the Approved SAA[2]**
**/per cent/**

| | | | Sep-19 | Dec-19 | Mar-20 | Jun-20 |
|---|---|---|---|---|---|---|
| | ***Asset Class*** | ***Target Weight SAA*** | ***Actual % of Fund*** | ***Actual % of Fund*** | ***Actual % of Fund*** | ***Actual % of Fund*** |
| ***Portfolio Weights*** | US Short Duration Fixed Income | 25.00 | 22.41 | 23.62 | 25.32 | 20.78 |
| | US Core Domestic Fixed Income | 40.00 | 39.19 | 38.60 | 42.25 | 39.97 |
| | US Core Domestic Equity | 17.50 | 21.32 | 19.92 | 17.45 | 21.61 |
| | Non-US Core International Equity | 17.50 | 17.07 | 17.86 | 14.98 | 17.65 |

Totals may not sum to 100 due to rounding.

At the HSF's mandate level, the US Short Duration Fixed Income mandate held the largest underweight position of 4.22 per cent, while the US Core Domestic Equity mandate maintained the largest overweight position of 4.11 per cent (see Table 3). Notwithstanding the deviations from the approved SAA, all the mandates weights were within their allowable range of +/- 5 per cent.

The total net asset value of the Fund as at the end of June 2020 was **US$5,817.1 million**, compared with US$5,925.3 million at the end of the previous quarter. Of this total, the HSF Investment Portfolio was valued at US$5,815.0 million, while the remaining portion was held in an operating cash account to meet the day-to-day expenses that arise from the management of the Fund.

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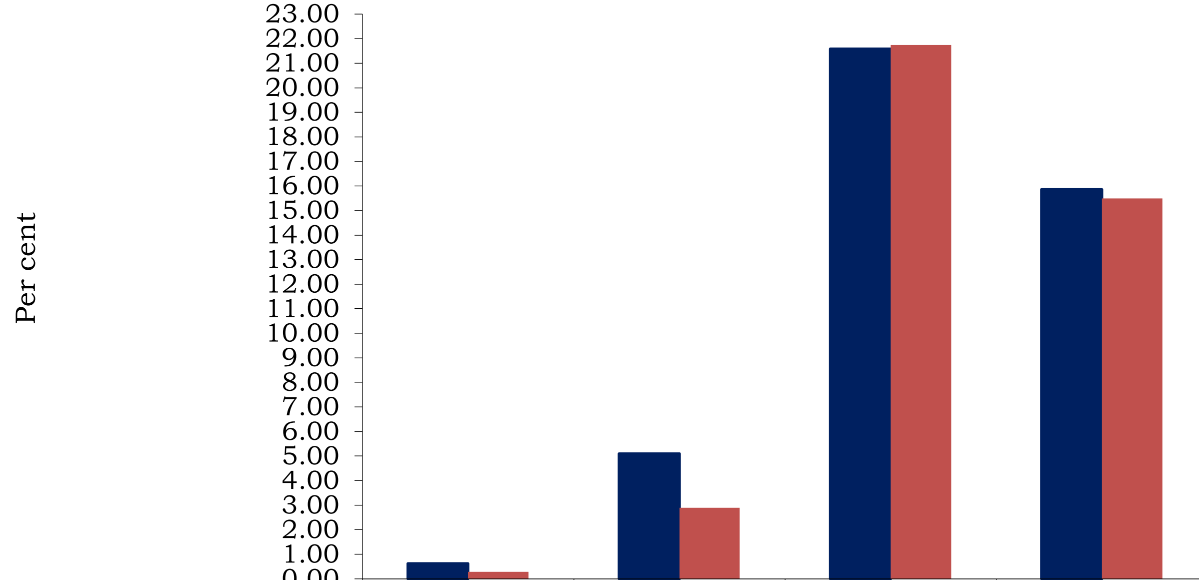
[2] Mandate weights are allowed to deviate from their approved SAA weights by +/- 5 per cent.

***Performance of the Investment Portfolio***

During the second quarter of 2020, the HSF's Investment Portfolio returned 8.62 per cent primarily due to the strong performance of its equity mandates (see Figure 5).

**Figure 5**
**Absolute Returns by Mandate**
**For the period April – June 2020**
**/per cent/**




| | US Short Duration | US Core Fixed Income | US Core Domestic Equities | Non US Core International Equities |
|---|---|---|---|---|
| Composite Portfolio Return | 0.63 | 5.09 | 21.59 | 15.86 |
| SAA Benchmark Return | 0.29 | 2.90 | 21.74 | 15.49 |

When compared with its SAA benchmark[3], which gained 7.57 per cent, the HSF outperformed by 105 basis points. This was mainly due to strong relative performance of the asset managers within the US Core Fixed Income mandate (see Figure 5). When compared to its benchmark (the Bloomberg Barclays US Aggregate Index), the US Core Fixed Income mandate delivered an excess return of 2.19 per cent (or 219 basis points) for the quarter.

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[3] The SAA benchmark is a blended benchmark which comprises, Bank of America/Merrill Lynch US Treasury 1-5 Years Index (25%), Bloomberg Barclays US Aggregate Bond Index (40%), Russell 3000 ex Energy Index (17.5%), and MSCI EAFE ex Energy Index (17.5%).

The **US Core Domestic Equity** mandate rose significantly during the second quarter of 2020, gaining 21.59 per cent. Its benchmark, the Russell 3000 ex Energy index, returned 21.74 per cent. The 15 basis points underperformance was due to poor stock selection over the period. Holdings within the financial services and technology sectors detracted from performance while, investment decisions in producer durables partially reduced the mandate's overall benchmark underperformance. The net asset value of this mandate as at June 30, 2020 was **US$1,256.3 million** compared with US$1,033.7 million three months earlier.

The **Non-US Core International Equity** mandate also recorded significant quarterly gains, increasing 15.86 per cent during the second quarter of 2020. This compares favourably to a return of 15.49 per cent for its benchmark, the MSCI EAFE ex Energy index. Collectively, good stock selection in the UK and other parts of Europe outweighed poor stock selection in Japan. In addition, country allocation incrementally added to gains. The mandate's net asset value at the end of June quarter was **US$1,026.2 million** compared with US$887.6 million at the end of March.

The **US Short Duration Fixed Income** mandate returned a modest 0.63 per cent during the second quarter of 2020. It outperformed its benchmark, the Bank of America Merrill Lynch US Treasury 1-5 year index, by 34 basis points. The portfolio's higher allocation to credit spread products such as agencies and supranationals added to performance as investors' risk appetite increased during the quarter. The net asset value of this mandate as at the end of June 30 2020 was **US$1,208.3 million**, compared to US$1,500.0 million at the end of March 31 2020. This decrease in value was mainly due to the withdrawal of US$300.0 million from the mandate in the quarter.

The longer duration **US Core Domestic Fixed Income** mandate returned 5.09 per cent compared to 2.90 per cent for its benchmark, the Barclays Capital US Aggregate Bond index. This outperformance was driven by greater exposure to investment grade corporate credit and securitised investments. The net asset value of this mandate at the end of June 2020 was **US$2,324.2 million** compared to US$2,503.3 million three months earlier. Withdrawals totalling US$300.0 million from the mandate in the quarter were partially offset by the strong performance in credit markets during the period.

## SECTION 4 – COMPLIANCE AND PORTFOLIO RISKS

### *Compliance*

At the end of the first quarter 2020, managers in the US Core Fixed Income mandate failed to achieve their expected returns and risk targets relative to the benchmark, stated in their investment guidelines. This non-compliance is due, in part, to the tactical asset allocation of the managers coupled with extreme market conditions during the period, which significantly hurt managers' relative performance. Despite their positive performance during the second quarter of 2020, managers remained non-compliant with the expected return and risk targets at the end of the period. During the quarter, the Central Bank, as manager of the Fund, increased the monitoring of managers' performance and held frequent discussions with them pertaining to the market positioning of their portfolios in order to get managers back in compliance with the investment guidelines as soon as possible.

In March 2020, several bonds held in the US Core Domestic Fixed Income portfolio were downgraded below the minimum investment credit rating of Baa3/BBB-/BBB- established for the mandate. After assessing that the likelihood of a further deterioration in credit ratings of these securities were low and liquidity cost of immediate sale was high, the Central Bank decided to allow managers to hold these bonds until June 2020. These bonds were eventually sold during the month of June. This brought managers' portfolios back in compliance with the minimum investment credit rating at the end of the quarter.

### *Portfolio Risks*

The main risks for the HSF portfolio are credit, concentration, interest rate, and currency risks. The following paragraphs give a description of how these risks are mitigated.

*Credit Risk*

Within the **money market portion** of the Fund, credit risk is minimised by the strict adherence to the following standards: (i) all counterparties must have a minimum credit rating of either A-1 from the Standard and Poor's rating agency or P-1 from Moody's

Investors Services; and (ii) a maximum exposure limit for counterparties of no more than 5.0 per cent of the market value of the portfolio.

For **fixed income instruments**, credit risk is mitigated by the use of credit concentration limits as well as minimum credit quality ratings. Bonds must have an investment grade rating as defined by Standard and Poor's, Moody's Investors Services or Fitch Ratings Incorporated. Should the required ratings on an existing fixed income security fall below the minimum standards, the security must be sold within an agreed upon timeframe. Table 4 below shows the average credit quality of the US Short Duration and US Core Fixed Income Portfolios as at June 30, 2020.

**Table 4**
**Average Credit Rating**

| Mandate | Portfolio | Benchmark |
|---|---|---|
| **US Short Duration** | **AA+** | **AA+** |
| **US Core Fixed Income** | **AA** | **AA** |

*Concentration Risk*

Concentration or diversification risk is minimised by investing across various asset types and holding a large number of positions within an asset class. The aim is to minimise risk and/or maximise return by investing in a wide cross-section of asset classes and positions that would each react differently to the same market event. As such, it is likely that when one has strong returns, another may have lower returns to the same market event.

The portfolio is currently invested across four (4) asset groupings as follows: US Short Duration Fixed Income; US Core Domestic Fixed Income; US Core Domestic Equity; and Non-US Core International Equity. In addition, concentration risk is minimised within asset groups by approved market exposure and issuer holding limits. For the **equity portfolios**, this risk is managed by imposing a maximum percentage holding of 3.0 per cent of any security's outstanding shares, as well as a maximum sector deviation relative to the benchmark of 5.0 per cent.

*Interest Rate Risk*

Interest rate risk is managed using a weighted average effective duration limit on the respective portfolios. For the US Short Duration Fixed Income mandate, the allowable range is six months longer or shorter than the weighted average duration of its respective benchmark. While the US Core Domestic Fixed Income mandate has an allowable range of 12 months longer or shorter than the weighted average duration of its respective benchmark. Table 5 shows the weighted average duration for the US Short Duration and US Core Domestic Fixed Income portfolios as at June 30, 2020.

**Table 5**
**Weighted Average Duration**
**/Years/**

| Mandate | Portfolio | Benchmark |
|---|---|---|
| **US Short Duration** | **2.47** | **2.58** |
| **US Core Domestic Fixed Income** | **6.10** | **6.04** |

*Currency Risk*

Currency risk is managed by containing and managing the exposure to non-US dollar instruments. For the fixed income mandates, no more than 10 per cent of the market value of the portfolio can be invested in securities which are denominated in currencies other than the US Dollar. For these mandates, non-US dollar currency exposure is fully hedged into the US Dollar. However, the effectiveness of the hedge may vary depending on market conditions.

For the US Core Domestic Equity mandate, no more than 5 per cent of the market value of the portfolio can be invested in securities, which are denominated in currencies other than the US Dollar. The performance benchmark for the Non-US Core International Equity portfolio is the custom MSCI EAFE ex-energy Index. The index comprises of equity securities of issuers domiciled in developed markets countries, excluding the US and Canada. Where benchmark securities are quoted in currencies other than the US dollar, the Fund accepts the currency risk. For this mandate, however, managers can hedge up to 15 per cent of the market value of their currency exposure into the US dollar, the base reporting currency for the HSF. At the end of June 2020, the currency exposure for this portfolio was 97 per cent of its market value. During the quarter, all the portfolios were within their respective limits.

# Appendix I
# HSF Portfolio - Historical Performance

| Quarter End | Current Returns | | | Financial YTD | | | Annualised Return Since Inception | | |
|---|---|---|---|---|---|---|---|---|---|
| | Portfolio | Benchmark | Excess | Portfolio | Benchmark | Excess | Portfolio | Benchmark | Excess |
| | % | % | bps | % | % | bps | % | % | bps |
| **FY 2010** | | | | | | | | | |
| December | 0.96 | 0.89 | 6.65 | 0.96 | 0.89 | 6.65 | 3.72 | 3.78 | -6.16 |
| March | 1.61 | 1.68 | -6.20 | 2.59 | 2.58 | 0.49 | 3.95 | 4.03 | -7.76 |
| June | -1.83 | -1.89 | 6.05 | 0.71 | 0.64 | 6.69 | 3.07 | 3.12 | -5.18 |
| September | 5.33 | 5.08 | 24.73 | 6.07 | 5.75 | 31.93 | 4.37 | 4.35 | 2.06 |
| **FY 2011** | | | | | | | | | |
| December | 2.29 | 2.21 | 8.15 | 2.29 | 2.21 | 8.15 | 4.70 | 4.65 | 4.13 |
| March | 1.62 | 1.54 | 7.24 | 3.94 | 3.79 | 15.68 | 4.81 | 4.76 | 5.72 |
| June | 1.88 | 1.81 | 6.68 | 5.89 | 5.67 | 22.91 | 4.98 | 4.91 | 7.00 |
| September | -4.82 | -4.28 | -53.66 | 0.79 | 1.14 | -34.89 | 3.57 | 3.63 | -6.29 |
| **FY 2012** | | | | | | | | | |
| December | 2.74 | 3.03 | -28.52 | 2.74 | 3.03 | -28.52 | 3.97 | 4.08 | -12.00 |
| March | 5.04 | 4.46 | 57.50 | 7.92 | 7.63 | 29.29 | 4.78 | 4.78 | -0.08 |
| June | -0.90 | -0.60 | -30.42 | 6.95 | 6.98 | -3.72 | 4.37 | 4.43 | -6.13 |
| September | 3.53 | 2.98 | 55.03 | 10.73 | 10.18 | 55.02 | 4.68 | 4.65 | 2.07 |
| **FY 2013** | | | | | | | | | |
| December | 1.49 | 1.45 | 4.11 | 1.49 | 1.45 | 4.11 | 4.88 | 4.83 | 4.76 |
| March | 3.29 | 2.90 | 39.19 | 4.82 | 4.38 | 44.01 | 5.23 | 5.12 | 11.20 |
| June | -0.30 | -0.69 | 39.05 | 4.51 | 3.66 | 84.64 | 4.97 | 4.80 | 17.26 |
| September | 3.95 | 3.47 | 47.35 | 8.63 | 7.26 | 137.06 | 5.40 | 5.16 | 24.01 |
| **FY 2014** | | | | | | | | | |
| December | 3.95 | 2.66 | 129.38 | 3.95 | 2.66 | 129.38 | 5.80 | 5.37 | 42.67 |
| March | 1.46 | 1.30 | 16.28 | 5.47 | 4.00 | 147.73 | 5.80 | 5.37 | 43.52 |
| June | 2.56 | 2.30 | 25.90 | 8.17 | 6.38 | 178.44 | 5.96 | 5.51 | 45.76 |
| September | -0.48 | -0.73 | 25.31 | 7.65 | 5.60 | 204.51 | 5.69 | 5.22 | 47.69 |
| **FY 2015** | | | | | | | | | |
| December | 2.25 | 1.63 | 62.27 | 2.25 | 1.63 | 62.27 | 5.81 | 5.26 | 54.46 |
| March | 2.29 | 2.25 | 3.95 | 4.60 | 3.92 | 67.71 | 5.92 | 5.39 | 53.34 |
| June | -0.02 | -0.51 | 49.43 | 4.58 | 3.39 | 119.07 | 5.74 | 5.16 | 57.93 |

| Quarter End | Current Returns | | | Financial YTD | | | Annualised Return Since Inception | | |
|---|---|---|---|---|---|---|---|---|---|
| | Portfolio | Benchmark | Excess | Portfolio | Benchmark | Excess | Portfolio | Benchmark | Excess |
| | % | % | bps | % | % | bps | % | % | bps |
| **FY 2015** | | | | | | | | | |
| September | -2.02 | -2.19 | 16.83 | 2.47 | 1.13 | 134.06 | 5.31 | 4.73 | 58.12 |
| **FY 2016** | | | | | | | | | |
| December | 1.68 | 1.67 | 0.22 | 1.68 | 1.67 | 0.22 | 5.36 | 4.79 | 56.52 |
| March | 0.80 | 1.26 | -46.14 | 2.48 | 2.95 | -46.70 | 5.30 | 4.80 | 49.64 |
| June | 0.80 | 1.11 | -30.92 | 3.30 | 4.09 | -78.90 | 5.24 | 4.79 | 44.83 |
| September | 2.45 | 2.12 | 32.85 | 5.83 | 6.29 | -45.72 | 5.37 | 4.89 | 47.33 |
| **FY 2017** | | | | | | | | | |
| December | -0.46 | -0.98 | 51.92 | -0.46 | -0.98 | 51.92 | 5.17 | 4.66 | 51.64 |
| March | 3.17 | 2.92 | 24.41 | 2.69 | 1.91 | 77.74 | 5.37 | 4.84 | 52.92 |
| June | 2.74 | 2.44 | 30.00 | 5.50 | 4.40 | 110.45 | 5.51 | 4.97 | 54.69 |
| September | 2.61 | 2.06 | 54.78 | 8.25 | 6.55 | 170.48 | 5.64 | 5.05 | 58.79 |
| **FY 2018** | | | | | | | | | |
| December | 2.24 | 1.83 | 40.22 | 2.24 | 1.83 | 40.22 | 5.72 | 5.11 | 61.32 |
| March | -0.55 | -0.94 | 38.21 | 1.67 | 0.88 | 78.91 | 5.53 | 4.90 | 63.49 |
| June | 0.26 | 0.21 | 5.36 | 1.94 | 1.09 | 84.52 | 5.43 | 4.81 | 62.52 |
| September | 1.81 | 1.54 | 27.02 | 3.79 | 2.65 | 113.37 | 5.47 | 4.84 | 63.61 |
| **FY 2019** | | | | | | | | | |
| December | -4.69 | -3.54 | -114.99 | -4.69 | -3.54 | -114.99 | 4.93 | 4.41 | 51.33 |
| March | 5.93 | 5.61 | 31.25 | 0.96 | 1.88 | -91.66 | 5.33 | 4.79 | 53.03 |
| June | 3.01 | 3.26 | -25.10 | 4.00 | 5.20 | -119.99 | 5.47 | 4.97 | 49.95 |
| September | 1.05 | 1.27 | -21.70 | 5.10 | 6.54 | -144.08 | 5.44 | 4.97 | 47.15 |
| **FY 2020** | | | | | | | | | |
| December | 3.62 | 3.20 | 41.90 | 3.62 | 3.20 | 41.90 | 5.63 | 5.13 | 49.64 |
| March | -7.33 | -5.51 | -182.43 | -3.98 | -2.48 | -149.43 | 4.90 | 4.58 | 32.73 |
| June | 8.62 | 7.57 | 104.53 | 4.30 | 4.90 | -60.38 | 5.46 | 5.06 | 39.94 |

Notes:

(1) Differences in totals are due to rounding.
(2) In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio. The performance benchmark for the HSF portfolio became a blended benchmark which comprise, Bank of America/Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, and MSCI EAFE ex Energy.
(3) In January 2011, the HSF Portfolio achieved its Strategic Asset Allocation where the portfolio was invested in four assets classes. US Short Duration Fixed Income (25), US Core Fixed Income (40), US Equity (17.5) and Non-US International Equity (17.5).
(4) With effect from the quarter ended December 2012, the Annualised Returns since inception were computed using a geometric average and not the previously used arithmetic average. For comparative purposes, prior period annualised returns since inception shown above were computing using a geometric average.

## Appendix II

## Heritage and Stabilisation Fund
## Portfolio Valuation (USD)

| Valuation Date | Net Asset Value | Total Comprehensive Income | Accumulated Surplus & Unrealized Capital Gains/Losses | Contributions / (Withdrawals) |
|---|---|---|---|---|
| **Annual Portfolio Valuation** | | | | |
| September 30,2007 | 1,766,200,701 | 41,966,361 | 41,966,361 | 321,706,043 |
| September 30,2008 | 2,888,421,556 | 68,412,770 | 110,379,131 | 1,054,174,457 |
| September 30,2009 | 2,964,686,478 | 76,248,691 | 186,755,766 | - |
| September 30,2010 | 3,621,984,041 | 177,645,460 | 364,361,226 | 477,344,263 |
| September 30,2011 | 4,084,016,158 | 9,715,841 | 374,074,067 | 451,400,519 |
| September 30,2012 | 4,712,376,278 | 420,693,705 | 794,770,772 | 207,550,846 |
| September 30,2013 | 5,154,027,747 | 399,007,950 | 1,193,778,722 | 42,414,251 |
| September 30,2014 | 5,533,425,248 | 379,167,024 | 1,572,945,746 | - |
| September 30,2015 | 5,655,143,565 | 120,639,605 | 1,693,585,351 | - |
| September 30,2016 | 5,584,246,290 | 305,452,096 | 1,999,037,447 | (375,050,860) |
| September 30, 2017 | 5,762,544,777 | 429,475,446 | 2,428,512,893 | (252,548,048) |
| September 30, 2018 | 5,965,847,092 | 203,717,910 | 2,632,230,803 | - |
| September 30, 2019 | 6,255,349,599 | 288,837,111 | 2,921,067,914 | - |
| **Quarterly Portfolio Valuation** | | | | |
| December 31, 2014 | 5,653,895,156 | 120,509,077 | 1,693,454,823 | - |
| March 31, 2015 | 5,779,420,631 | 125,471,133 | 1,818,925,956 | - |
| June 30, 2015 | 5,774,951,169 | (4,765,278) | 1,814,160,678 | - |
| September 30, 2015 | 5,655,143,565 | (120,575,327) | 1,693,585,351 | - |
| December 31, 2015 | 5,744,963,957 | 90,833,573 | 1,784,418,924 | - |
| March 31, 2016 | 5,787,343,363 | 42,134,260 | 1,826,553,184 | - |
| June 30, 2016 | 5,454,568,405 | 42,838,704 | 1,869,391,888 | (375,050,860) |
| September 30, 2016 | 5,584,246,290 | 129,645,559 | 1,999,037,447 | - |
| December 31, 2016 | 5,555,039,859 | (29,605,256) | 1,969,432,191 | - |
| March 31, 2017 | 5,473,047,983 | 170,609,885 | 2,140,042,076 | (252,548,048) |
| June 30, 2017 | 5,619,311,033 | 146,006,897 | 2,286,048,973 | - |

## Appendix II

## Heritage and Stabilisation Fund
## Portfolio Valuation (USD)

| Valuation Date | Net Asset Value | Total Comprehensive Income | Accumulated Surplus & Unrealized Capital Gains/Losses | Contributions / (Withdrawals) |
|---|---|---|---|---|
| **Quarterly Portfolio Valuation** | | | | |
| September 30, 2017 | 5,762,544,777 | 142,463,920 | 2,428,512,893 | - |
| December 31, 2017 | 5,888,599,170 | 124,900,387 | 2,553,413,280 | - |
| March 31, 2018 | 5,852,789,288 | (36,468,342) | 2,516,944,938 | - |
| June 30, 2018 | 5,863,070,206 | 12,336,541 | 2,529,281,479 | - |
| September 30,2018 | 5,965,847,092 | 102,949,324 | 2,632,230,803 | - |
| December 31,2018 | 5,683,219,683 | (486,810,763) | 2,349,137,950 | - |
| March 31, 2019 | 6,016,429,263 | 333,123,750 | 2,682,261,700 | - |
| June 30, 2019 | 6,194,328,757 | 177,424,921 | 2,859,686,621 | - |
| September 30, 2019 | 6,255,349,599 | 61,381,293 | 2,921,067,914 | - |
| December 31, 2019 | 6,478,340,872 | 222,180,512 | 3,143,248,426 | - |
| March 31, 2020 | 5,925,283,653 | (473,394,404) | 2,669,854,022 | (79,853,158) |
| June 30, 2020 | 5,817,072,795 | 493,393,358 | 3,163,247,380 | (600,000,000) |

# Appendix III
# Summary Characteristics of Composite Benchmarks

## Fixed Income Benchmarks

| Key Characteristics | Bloomberg Barclays US Aggregate Index | Merrill Lynch 1-5 Index |
|---|---|---|
| **Total Holdings** | 11,690 | 151 |
| **Coupon (%)** | 3.03 | 2.00 |
| **Duration (Years)** | 6.04 | 2.58 |
| **Average Life (Years)** | 8.14 | 2.66 |
| **Yield to Maturity (%)** | 1.27 | 0.19 |
| **Option Adjusted Spread (bps)** | 68 | 0 |
| **Average Rating (S&P)** | AA | AA+ |
| **Minimum Rating (S&P)** | BBB | AA+ |

## Equity Benchmarks

| Key Characteristics | Russell 3000 (ex-Energy) | MSCI EAFE (ex-Energy) |
|---|---|---|
| **Total Holdings** | 2,889 | 883 |
| **Earnings Per Share (EPS Growth 3-5yr fwd.)** | 11.7 | 7.12 |
| **Price Earnings (P/E fwd.)** | 23.3 | 18.36 |
| **Price / Book (P/B)** | 3.3 | 1.42 |
| **Weighted Average Market Capitalisation (Bn.)*** | 335.3 | 60.9 |

*Market capitalisation is a measurement of the size of a company (share price x the number of outstanding shares). The weighted average market capitalisation of a stock market index represents the average size of the firms comprising the index where each is weighted according to its market capitalisation.

## Appendix IV

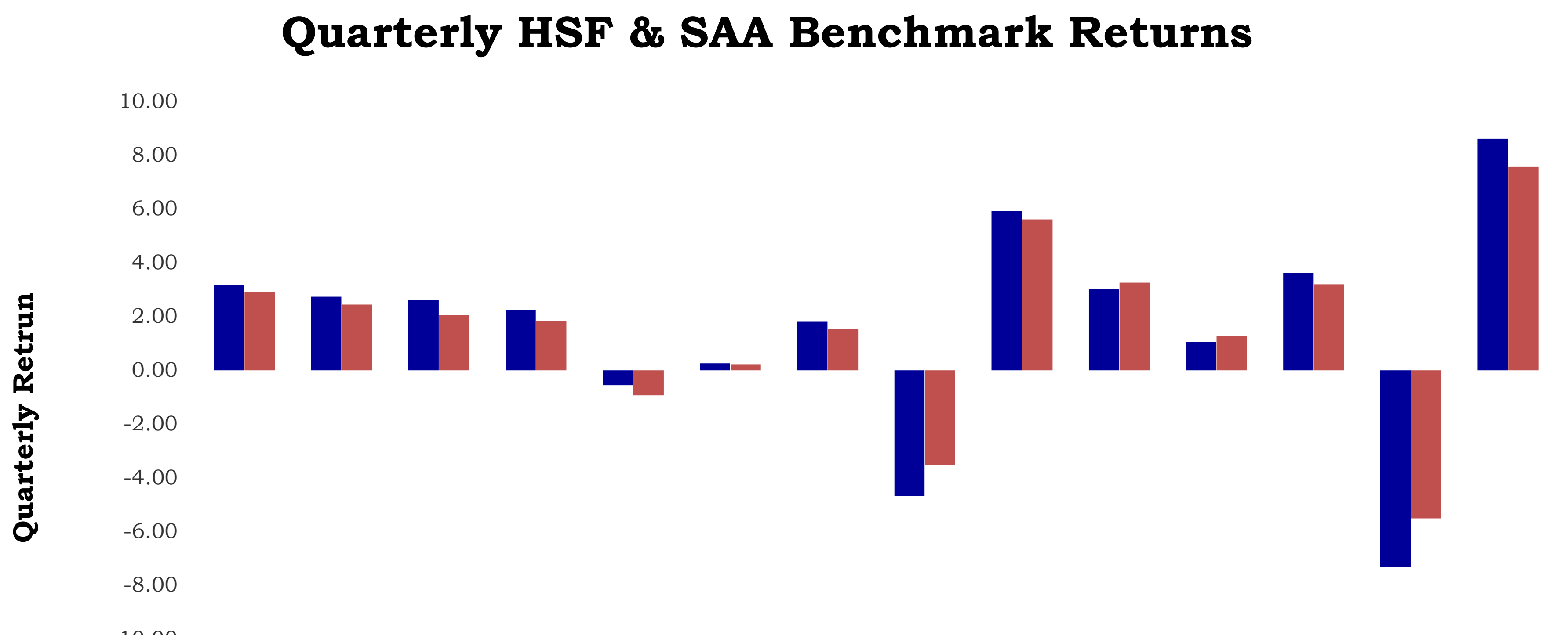
### Summary of the Fund's Net Asset Value by Mandate
### /US$ Million/

| | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 |
|---|---|---|---|---|---|
| **Total Fund Value** | **6,194** | **6,255** | **6,478** | **5,925** | **5,817** |
| **Total Value of Equity** | **2,408** | **2,401** | **2,447** | **1,921** | **2,283** |
| US Core Domestic Equity | 1,314 | 1,333 | 1,290 | 1,034 | 1,256 |
| Non-US Core International Equity | 1,094 | 1,068 | 1,157 | 888 | 1,026 |
| **Total Value of Fixed Income** | **3,784** | **3,853** | **4,029** | **4,003** | **3,532** |
| US Short Duration Fixed Income | 1,391 | 1,402 | 1,530 | 1,500 | 1,208 |
| US Core Domestic Fixed Income | 2,393 | 2,451 | 2,500 | 2,503 | 2,324 |
| **Total Value of Cash or Cash Equivalents** | **3** | **2** | **2** | **1** | **2** |

NB: Differences in totals are due to rounding.

**Appendix V**

**HSF Portfolio Quarterly Returns**
**/per cent/**




| | FY2017 Q2 | FY2017 Q3 | FY2017 Q4 | FY2018 Q1 | FY2018 Q2 | FY2018 Q3 | FY2018 Q4 | FY2019 Q1 | FY2019 Q2 | FY2019 Q3 | FY2019 Q4 | FY2020 Q1 | FY2020 Q2 | FY2020 Q3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| HSF Portfolio | 3.17 | 2.74 | 2.61 | 2.24 | -0.55 | 0.26 | 1.81 | -4.69 | 5.93 | 3.01 | 1.05 | 3.62 | (7.33) | 8.62 |
| Benchmark | 2.92 | 2.44 | 2.06 | 1.83 | -0.94 | 0.21 | 1.54 | -3.54 | 5.61 | 3.26 | 1.27 | 3.20 | (5.51) | 7.57 |